

MILAN PUBLIC LIBRARY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004
WITH
INDEPENDENT AUDITORS' REPORT

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MILAN PUBLIC LIBRARY	County WASHTENAW
Audit Date JUNE 30, 2004	Opinion Date AUGUST 31, 2004	Date Accountant Report Submitted to State: JANUARY 26, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan*.
2. We are certified public accountants registered to practice in Michigan.

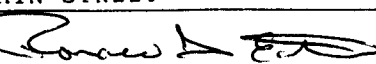
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

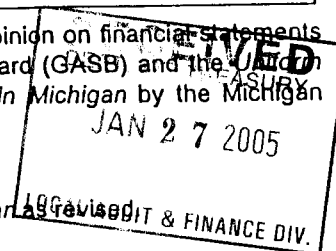
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.			
Street Address 121 NORTH MAIN STREET	City ADRIAN	State MI	ZIP 49221
Accountant Signature 			



MILAN PUBLIC LIBRARY
INDEPENDENT AUDITORS' REPORT
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Milan Public Library Management's Discussion and Analysis

The Milan Public Library (the "Library"), located in the City of Milan in Monroe County, Michigan is in its first year of implementing the requirements of Governmental Accounting Standards Board Statement No. 34 (GASB 34) in its annual audit report. This section presents management's discussion and analysis of the Library's financial performance during the fiscal year ended June 30, 2004 and is intended to serve as an introduction to the Library's basic financial statements. The Library is an independent taxing authority and receives 1.5 mills from the residents of the City of Milan for its operations. This millage rate is subject to Headlee rollback and was assessed at 1.4427. Assets for the Milan Public Library for the fiscal year ending in June 2004 include the General Fund, the Endowment Account with four sub groups, and a Library Planning and Construction Fund. A comparative analysis will be provided in subsequent years when prior year information is available.

Overview of Financial Statements

The Library's basic financial statements consist of three basic components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information, required by GASB 34.

Government-wide Financial Statements

The *government-wide* financial statements provide readers information about the Library's finances as a whole, using accounting methods similar to a private-sector business. The two government-wide statements are the Statement of Net Assets and the Statement of Activities.

The *statement of net assets* presents all of the Library's assets and liabilities, the difference between the two being reported as net assets. Capital assets and long-term debt are included as assets and liabilities, respectively, in this statement, which were previously reported in separate account groups. Increases or decreases in the Library's net assets are an indicator of whether its financial position is improving or deteriorating.

The *statement of activities* reports the current year's revenues and expenses, regardless of when cash is received or paid. The governmental activities of the Library include providing a diverse collection of books, periodicals, audio visual materials and online resources to meet informational, educational, cultural, remedial needs of the community with a special role in the community of collecting and preserving local historical and genealogical materials.

Governmental Fund Financial Statements

The *fund financial statements* focus on the individual parts of the Library. The fund financial statements provide more detailed information than the government-wide statements and focus on the Library's major funds not the Library as a whole. The Library's operational activities are reported in the General Fund.

The focus of the governmental funds is on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. The information should be useful in evaluating the Library's near-term financing requirements. The General Fund and the Permanent Fund are considered to be major funds for the Library. The Permanent Fund is used to account for resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs. The General Fund accounts for all other resources that do not have a specific purpose. All other governmental funds are considered to be non-major funds, as presented in the Combining Balance Sheet of Non-major Governmental Funds. For the fiscal year ending June 30, 2004, the Library had one Non-major Governmental Fund, the Capital Projects Fund.

The *Notes to the Financial Statements* provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

The statements are followed by *required supplementary information* that further explains and supports the financial statements and include a comparison with the Library's budget for the year.

Financial Analysis

Overall Financial Analysis

The Library had net assets of \$1,366,239 as of June 30, 2004, which is decreased \$95,668 from the previous year. Major reasons for the decrease included a hefty cut in state aid to libraries, as well as a significant decrease in donations from the townships we serve (75% decrease from York Twp). As with all other businesses of any type, the library was hit hard by the low interest rates on investments, both for the General Fund and the Endowment Funds—the interest of which is used to supplement purchases for the library. Other reasons for the decrease are the rise in costs of materials, and especially the costs of liability and health insurance.

The government-wide Statement of Net Assets and Statement of Activities are summarized in Tables 1 and 2, respectively.

Table 1

**Governmental
Activities**

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$308,303
Due from other governmental units	500
Total current assets	308,803
NONCURRENT ASSETS:	
Capital assets	1,348,654
Less: Accumulated depreciation	(285,875)
Total non current assets	1,062,779
Total assets	<u>\$1,371,582</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$2,490
Salaries payable	2,550
Accrued expenses	303
Total liabilities	5,343
NET ASSETS:	
Invested in capital assets net of related debt	1,062,779
Restricted for capital projects	25,182
Restricted for nonexpendable endowments	25,000
Restricted for expendable endowments	173,555
Unrestricted	79,723
Total net assets	<u>1,366,239</u>
Total Liabilities & Net Assets	<u>\$1,371,582</u>

Table 2

Functions/programs				Total
	Expenses	Program Revenues		Governmental activities
		Charges for Operating	Grants	Net (expense) revenue and changes in net assets
		Services		2004
Governmental activities:				
Library	361,568	1,771	13,578	(346,219)
Unallocated depreciation	84,672			(84,672)
Total governmental activities	446,240	1,771	13,578	(430,891)
General revenues:				
Property taxes, levied for general purposes				266,024
Investment earnings				1,745
State sources-unrestricted				13,455
Fines				42,946
Other				11,053
Total general revenues				335,223
Change in net assets				(95,668)
Net assets, beginning of year				1,461,907
Net assets, end of year				\$1,366,239

Analysis of Individual Funds

The General Fund fund balance decreased \$26,672 as a result of decreased state aid and local donations coupled with increased costs of operations.

The permanent funds include endowment assets in four separate accounts, Mohr/Walls, Sheehan, Phillips and Enrichment that total \$198,555. There is further detail in the combining financial statements that follow the required supplementary information.

The Capital Projects fund balance totaled \$25,182 at the end of the fiscal year, an increase of \$5,182 due to local donations. The purpose of the capital projects fund is to begin building a fund for the expansion of the current library, or the building of an additional facility.

General Fund Budgetary Highlights

The original budget was changed to account for the increase in penal fines and the receipt of state aid funds from the previous year, despite smaller than expected donations from

the townships and much lower interest than expected. The local revenue exceeded the budget by 3.5%.

General operating revenue totaled \$332,979 with the final amount budgeted for the fiscal year of \$316,755.

All expenses for the total year, including salaries and wages, purchased services, supplies and materials, capital outlay, miscellaneous and other uses and transactions totaled \$361,475 versus a budget of \$387,469.

Capital Asset and Long-term Debt Activity

Capital Assets

There were no additions or disposals of capital assets for the fiscal year ended June 30, 2004.

Long-term Debt Activity

The library board has been looking throughout fiscal FYE 2004 and beyond into a bond issue for library expansion. As this point, due to a variety of problems with the City of Milan, the plan has been put on hold while the possibility of establishing a Library district and the millage increase are explored. As of this time, there is no significant debt activity, nor are there any changes in credit ratings or debt limitations as the library as a unit is legally unable to bond.

Factors Bearing on the District's Future

It has become apparent over the last several years that the 1.5 mils paid by the residents of the City of Milan is not generating enough income to keep up with the rise in costs of materials, and especially the costs of liability and health insurance. Although the library staff has been able to keep well within the total budget, these costs have required the use of monies from the fund balance, causing the contingency account to be reduced. To attempt to remedy this problem, the library board will place on the February 2005 ballot a request for an increase of .5 mils.

The library board will look at the possibility, once again, of forming a Library district in order to equalize the amounts paid by all those residents and contract areas receiving full services from the library. A meeting is scheduled with a library law specialist at the beginning of 2005.

To the Board of Directors
Milan Public Library
Milan, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities of Milan Public Library, as of and for the year ended June 30, 2004, which comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Milan Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Milan Public Library, as of June 30, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Milan Public Library has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004 on our consideration of Milan Public Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

To the Board of Directors
Milan Public Library
Milan, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Public Library's basic financial statements. The introductory section, combining permanent fund and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining permanent fund and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 31, 2004

MILAN PUBLIC LIBRARY
STATEMENT OF NET ASSETS

June 30, 2004

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash and cash equivalents	\$ 308,303
Due from other governmental units	<u>500</u>
Total current assets	<u>308,803</u>
Noncurrent assets:	
Capital assets	1,348,654
Less: Accumulated depreciation	<u>(285,875)</u>
Total noncurrent assets	<u>1,062,779</u>
Total assets	<u><u>\$ 1,371,582</u></u>
 <u>LIABILITIES AND NET ASSETS</u> 	
Current liabilities:	
Accounts payable	\$ 2,490
Salaries payable	2,550
Accrued expenses	<u>303</u>
Total current liabilities	<u>5,343</u>
Net assets:	
Invested in capital assets net of related debt	1,062,779
Restricted for:	
Capital projects	25,182
Nonexpendable endowments	25,000
Expendable endowments	173,555
Unrestricted	<u>79,723</u>
Total net assets	<u>1,366,239</u>
Total liabilities and net assets	<u><u>\$ 1,371,582</u></u>

MILAN PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

	<u>PROGRAM REVENUES</u>			<u>Total Governmental Activities</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue And Changes In Net Assets</u>
Governmental activities:				
Library	\$ 361,568	\$ 1,771	\$ 13,578	\$ (346,219)
Unallocated depreciation	<u>84,672</u>	<u> </u>	<u> </u>	<u>(84,672)</u>
Total governmental activities	<u>446,240</u>	<u>1,771</u>	<u>13,578</u>	<u>(430,891)</u>
General revenues:				
Property taxes, levied for general purposes				266,024
Investment earnings				1,745
State sources – unrestricted				13,455
Fines				42,946
Other				<u>11,053</u>
Total general revenues				<u>335,223</u>
Change in net assets				(95,668)
Net assets, beginning of year				<u>1,461,907</u>
Net assets, end of year				<u>\$ 1,366,239</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2004

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 84,566	\$ 198,555	\$ 25,182	\$ 308,303
Due from other governmental units	<u>500</u>	<u> </u>	<u> </u>	<u>500</u>
Total assets	<u>\$ 85,066</u>	<u>\$ 198,555</u>	<u>\$ 25,182</u>	<u>\$ 308,803</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 2,490	\$	\$	\$ 2,490
Salaries payable	2,550			2,550
Accrued expenditures	<u>303</u>	<u> </u>	<u> </u>	<u>303</u>
Total liabilities	<u>5,343</u>	<u>-</u>	<u>-</u>	<u>5,343</u>
<u>FUND BALANCES</u>				
Reserved for:				
Capital projects			25,182	25,182
Nonexpendable endowments		25,000		25,000
Expendable endowments		173,555		173,555
Unreserved, reported in:				
General Fund	<u>79,723</u>	<u> </u>	<u> </u>	<u>79,723</u>
Total fund balances	<u>79,723</u>	<u>198,555</u>	<u>25,182</u>	<u>303,460</u>
Total liabilities and fund balances	<u>\$ 85,066</u>	<u>\$ 198,555</u>	<u>\$ 25,182</u>	<u>\$ 308,803</u>
Total government fund balances				\$ 303,460
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in the governmental activities are not financial resources and are not reported in the funds.				
The cost of the capital asset is			\$ 1,348,654	
The accumulated depreciation is			<u>(285,875)</u>	
				<u>1,062,779</u>
Net assets of governmental activities				<u>\$ 1,366,239</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Local sources:				
Property taxes	\$ 266,024	\$	\$	\$ 266,024
Membership dues – nonresidents	2			2
Library fines	5,195			5,195
Penal fines	37,751			37,751
Investment earnings	294	1,451		1,745
Charges for services	1,769			1,769
Donations	1,151	10,927		12,078
Other	<u>5,838</u>		<u>5,215</u>	<u>11,053</u>
Total local sources	318,024	12,378	5,215	335,617
State sources:				
State aid – direct	6,727			6,727
State aid – indirect	6,728			6,728
Federal sources	<u>1,500</u>			<u>1,500</u>
Total revenues	<u>332,979</u>	<u>12,378</u>	<u>5,215</u>	<u>350,572</u>
Expenditures:				
Current:				
Salaries and benefits	234,416			234,416
Purchased services	68,851			68,851
Supplies and materials	56,643			56,643
Miscellaneous	<u>1,565</u>	<u>60</u>	<u>33</u>	<u>1,658</u>
Total expenditures	<u>361,475</u>	<u>60</u>	<u>33</u>	<u>361,568</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(28,496)</u>	<u>12,318</u>	<u>5,182</u>	<u>(10,996)</u>
Other financing sources (uses):				
Transfers in	1,824			1,824
Transfers out		<u>(1,824)</u>		<u>(1,824)</u>
Total other financing sources (uses)	<u>1,824</u>	<u>(1,824)</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	(26,672)	10,494	5,182	(10,996)
Fund balances:				
Beginning of year	<u>106,395</u>	<u>188,061</u>	<u>20,000</u>	<u>314,456</u>
End of year	<u>\$ 79,723</u>	<u>\$ 198,555</u>	<u>\$ 25,182</u>	<u>\$ 303,460</u>

The notes to the financial statements are an integral part of this statement.

MILAN PUBLIC LIBRARY

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2004

Net change in fund balances total governmental funds \$ (10,996)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as
expenditures in the Statement of Revenues,
Expenditures, and Changes Fund Balances.

These costs are allocated over their estimated
useful lives as depreciation on the Statement
of Activities:

Depreciation expense (84,672)

Change in net assets of governmental activities \$ (95,668)

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Milan Public Library (the "Library") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The Milan Public Library is governed by an elected six member Board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Milan Public Library as the primary government. There are no component units as of June 30, 2004.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Library. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the Library's activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes, direct and indirect State sources, penal fines, and other unrestricted items are not included as program revenues but instead as *general revenues*.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Library first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the Library's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and fines, etc.). The statement of activities reduces gross expenses by related program revenues.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, penal fines, interest income, and other revenues).

The Library does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Library as an entity and the change in the Library's net assets resulting from the current year's activities.

GOVERNMENTAL FUND TYPES

Major Funds:

General Fund – The operations of the General Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Permanent Fund – A Permanent Fund is used to report resources legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs.

Nonmajor Fund:

Capital Project Fund – A Capital Project Fund is used to account for the acquisition or construction of fixed assets.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and state aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

D. Other Accounting Policies

1. Cash and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the investment policy adopted by the governing board authorize the Library to invest in obligations of the U.S. Treasury, certificates of deposit, savings and deposit accounts, commercial paper, U.S. Repurchase Agreements, and the State Treasurer's Investment Pool.

Cash consists of savings, deposit, and money market accounts and are valued at cost.

The cash reported in the Permanent Fund is restricted by donor stipulations.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The Library estimates the useful life of assets as follows:

Building	50	years
Equipment and furniture	5 - 15	years
Library books	10	years

3. Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

4. Fund Balances

Fund balances on the Governmental fund balance sheet are classified as either reserved or unreserved. The term reserved indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. The reserve for Capital Projects is the portion of fund balance legally segregated for expenditure within the Capital Projects Fund. The reserve for Nonexpendable Endowments is the amount of principal that is required to remain in tact according to a donor's stipulation. The reserve for Expendable Endowments is the amount restricted for a particular use as stipulated by donors.

NOTE 2. BUDGETS AND BUDGETARY ACCOUNTING

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated.

The Library's actual and budgeted expenditures for the General Fund have been shown by object. The approved budget of the Library for the General Fund was adopted by object on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). All encumbrances and unexpended budget categories lapse at end of year. The Permanent Fund is not legally required to adopt a budget.

The General Fund did not incur expenditures in excess of budget. Expenditures were not incurred in excess of the amount appropriated.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 3. CASH

Custodial Credit Risk Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of June 30, 2004, \$208,303 of the Library's bank balance of \$308,303 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$208,303</u>
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NOTE 4. CAPITAL ASSETS

A summary of changes in the Library's capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Primary Government</u>				
Governmental activities:				
Assets not being depreciated – land	\$ 49,200	\$	\$	\$ 49,200
Total assets not being depreciated	<u>49,200</u>	<u>-</u>	<u>-</u>	<u>49,200</u>
Building	569,725			569,725
Equipment and furniture	31,183			31,183
Library books	<u>698,546</u>			<u>698,546</u>
Depreciable capital assets	<u>1,299,454</u>	<u>-</u>	<u>-</u>	<u>1,299,454</u>
Less accumulated depreciation for:				
Building	113,945	11,395		125,340
Equipment and furniture	17,403	3,423		20,826
Library books	<u>69,855</u>	<u>69,854</u>		<u>139,709</u>
Total accumulated depreciation	<u>201,203</u>	<u>84,672</u>	<u>-</u>	<u>285,875</u>
Governmental activities capital assets, net	<u>\$ 1,147,451</u>	<u>\$ (84,672)</u>	<u>\$ -</u>	<u>\$ 1,062,779</u>

Capital assets are depreciated over their estimated useful lives using the straight line method of depreciation for all classes of depreciable assets. Depreciation for the fiscal year ended June 30, 2004 amounted to \$84,672. The Library determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 5. RETIREMENT PLAN

PLAN DESCRIPTION

The Library contributes to the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the Library. MERS is administered by its Board of Trustees. The actuary for the System is Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the Milan Public Library, that authority rests with the Library's Board. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

Benefits vest after 6 years of credited service. Library employees who retire at or after age 60 with 10 or more years of service, or age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect), or age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect) are entitled to a retirement allowance equal to credited service multiplied by 1.7% of the final average compensation (FAC). The system also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute.

FUNDING POLICY

Employees are not required to make contributions under the plan. The Library is required to contribute the actuarially determined amount each year.

ANNUAL PENSION COST

For the year ended June 30, 2004, the Library's pension contribution was \$14,501 based on wages of \$136,032. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] the assumption that benefits will increase between 1.0% to 2.5% per year (annually) after retirement.

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period.

Currently, there is an unfunded actuarial accrued liability of \$188,039. The unfunded actuarial accrued liability is being amortized by a level percent of payroll over a period of 30 years.

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 5. RETIREMENT PLAN (Continued)

Actuarial Accrued Liability (as of 12/31/02)

Retirees and beneficiaries currently receiving benefits	\$ 143,315
Terminated employees not yet receiving benefits	16,015
Current employees –	
Accumulated employee contributions including allocated investment income	246,835
Employer financed	<u>1,246,034</u>
Total Actuarial Accrued Liability	1,652,199
Net Assets Available for Benefits at Actuarial Value	<u>1,464,160</u>
(Market Value is \$1,163,459)	
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 188,039</u>

THREE YEAR TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 13,427	100%	\$ 0.00
6/30/03	13,742	100%	0.00
6/30/04	14,501	100%	0.00

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets [a]</u>	<u>Actuarial Accrued Liability (AAL) Entry Age [b]</u>	<u>Unfunded AAL (UAAL) [b-a]</u>	<u>Funded Ratio [a/b]</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99	\$ 143,187	\$ 190,055	\$ 46,868	75%	\$ 86,200	54
12/31/00	155,619	207,936	52,317	75	99,131	53
12/31/01	162,785	213,966	51,181	76	87,224	59
12/31/02	164,029	228,120	64,091	72	114,515	56

MILAN PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 6. INTERFUND TRANSFERS

The interfund transfers between the Permanent Fund and the General Fund represent the amount of interest earned by the endowments that is released from restriction and, therefore, available for use by the General Fund. A schedule of interfund transfers follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	<u>\$ 1,824</u>	Permanent	<u>\$ 1,824</u>

NOTE 7. MILLARD F. AND MARIE A. PHILLIPS UNITRUST AGREEMENT

On May 3, 1996, Millard F. and Marie A. Phillips created a charitable remainder unitrust, whereas upon the death of the last of the Grantors, the Trustee shall distribute the trust principal as then constituted and any accrued and undistributed income thereof, other than any amount due the last surviving Grantor, to the Milan Public Library of Milan, Michigan, or any successor public library of the Milan Public Library. The income from the trust estate shall be used for new program development, enhancement, or upgrading of old programs, enhancement and expansion of materials in the genealogy collection, resource materials and electronic equipment for use by the general public. It is intended that these funds not be used for the everyday expenses of operation of the library, such as utilities, salaries, and normal book purchases, or for the cost of construction or renovation of the library building. This new trust shall be known as the Millard F. and Marie A. Phillips Milan Public Library Endowment Trust.

NOTE 8. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The Library pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The Library cannot estimate losses from reported and unreported claims at June 30, 2004. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The Library continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2004 or any of the prior three years.

**INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION**

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 31, 2004

MILAN PUBLIC LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local sources	\$ 307,345	\$ 307,345	\$ 318,024	\$ 10,679
State sources	9,410	9,410	13,455	4,045
Federal sources			1,500	1,500
Total revenues	<u>316,755</u>	<u>316,755</u>	<u>332,979</u>	<u>16,224</u>
Expenditures:				
Salaries and wages	243,599	243,599	234,416	9,183
Purchased services	73,140	73,140	68,851	4,289
Supplies and materials	62,850	62,580	56,643	5,937
Miscellaneous	1,900	1,900	1,565	335
Capital outlay	<u>6,250</u>	<u>6,250</u>		<u>6,250</u>
Total expenditures	<u>387,739</u>	<u>387,469</u>	<u>361,475</u>	<u>25,994</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(70,984)</u>	<u>(70,714)</u>	<u>(28,496)</u>	<u>42,218</u>
Other financing sources (uses):				
Transfers in	3,239	3,756	1,824	(1,932)
Transfers out	<u>(49,755)</u>	<u>(51,373)</u>		<u>51,373</u>
Total other financing sources (uses)	<u>(46,516)</u>	<u>(47,617)</u>	<u>1,824</u>	<u>49,441</u>
Net change in fund balance	(117,500)	(118,331)	(26,672)	91,659
Fund balance:				
Beginning of year			<u>106,395</u>	
End of year			<u>\$ 79,723</u>	

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Milan Public Library taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 31, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Milan Public Library
Milan, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Milan Public Library, as of and for the year ended June 30, 2004, which collectively comprise the Milan Public Library's basic financial statements and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Milan Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Milan Public Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the

To the Board of Directors
Milan Public Library
Milan, Michigan

internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Milan Public Library in a separate letter dated August 31, 2004.

This report is intended solely for the information and use of the Board of Directors, management, Departments of the State of Michigan, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
August 31, 2004

MILAN PUBLIC LIBRARY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPE
JUNE 30, 2004

	<u>Capital</u>	Total
<u>ASSETS</u>	<u>Projects</u>	Nonmajor
		Governmental
		Fund
Cash and cash equivalents	<u>\$ 25,182</u>	<u>\$ 25,182</u>
Total assets	<u>\$ 25,182</u>	<u>\$ 25,182</u>
<u>FUND BALANCE</u>		
Reserved for:		
Capital Projects	<u>\$ 25,182</u>	<u>\$ 25,182</u>
Total fund balance	<u>\$ 25,182</u>	<u>\$ 25,182</u>

MILAN PUBLIC LIBRARY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUND TYPE

For the Year Ended June 30, 2004

	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Fund</u>
Revenues:		
Local sources:		
Other	\$ 5,215	\$ 5,215
Total revenues	<u>5,215</u>	<u>5,215</u>
Expenditures:		
Current:		
Other expenditures	<u>33</u>	<u>33</u>
Total expenditures	<u>33</u>	<u>33</u>
Net change in fund balance	5,182	5,182
Fund balance:		
Beginning of year	<u>20,000</u>	<u>20,000</u>
End of year	<u>\$ 25,182</u>	<u>\$ 25,182</u>

MILAN PUBLIC LIBRARY
PERMANENT FUND
COMBINING BALANCE SHEET
June 30, 2004

<u>ASSETS</u>	<u>Endowment</u>	<u>General Purpose Enrichment</u>	<u>Mohr/ Wall</u>	<u>Sheehan</u>	<u>Phillips</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,801	\$ 48,195	\$ 54,337	\$ 47,133	\$ 47,089	\$ 198,555
Total assets	\$ 1,801	\$ 48,195	\$ 54,337	\$ 47,133	\$ 47,089	\$ 198,555
 <u>FUND BALANCES</u>						
Reserved for:						
Nonexpendable endowments	\$	\$	\$	\$ 25,000	\$	\$ 25,000
Expendable endowments	1,801	48,195	54,337	22,133	47,089	173,555
Total fund balances	\$ 1,801	\$ 48,195	\$ 54,337	\$ 47,133	\$ 47,089	\$ 198,555

MILAN PUBLIC LIBRARY

PERMANENT FUND

COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES

For the Year Ended June 30, 2004

	<u>Endowment</u>	<u>General Purpose Enrichment</u>	<u>Mohr/ Wall</u>	<u>Sheehan</u>	<u>Phillips</u>	<u>Total</u>
Revenues:						
Contributions	\$ 1,726	\$ 3,855	\$ 3,268	\$ 738	\$ 1,340	\$ 10,927
Investment earnings		355	399	347	350	1,451
Total revenues	<u>1,726</u>	<u>4,210</u>	<u>3,667</u>	<u>1,085</u>	<u>1,690</u>	<u>12,378</u>
Expenses:						
Donations to General Fund		439	537	429	419	1,824
Fees and miscellaneous		15	15	15	15	60
Total expenses	<u>-</u>	<u>454</u>	<u>552</u>	<u>444</u>	<u>434</u>	<u>1,884</u>
Net changes in fund balances	1,726	3,756	3,115	641	1,256	10,494
Fund balances:						
Beginning of year	<u>75</u>	<u>44,439</u>	<u>51,222</u>	<u>46,492</u>	<u>45,833</u>	<u>188,061</u>
End of year	<u>\$ 1,801</u>	<u>\$ 48,195</u>	<u>\$ 54,337</u>	<u>\$ 47,133</u>	<u>\$ 47,089</u>	<u>\$ 198,555</u>